

Message Text

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TAGS: ECON, EFIN, CA
SUBJECT: CANADIAN FEDERAL EXPENDITURE ESTIMATES FOR
FY 1978/79.

1. SUMMARY. GOC ESTIMATES 9.8 PERCENT RISE IN NOMINAL
FEDERAL GOVERNMENT SPENDING AND 3.5 PERCENT INCREASE IN
REAL EXPENDITURES IN FY 1978/79. THESE SPENDING ESTIMATES
SUBJECT TO REVISION WHEN TAX CHANGES, REVENUE AND DEFICIT
ESTIMATES MADE IN FULL BUDGET PRESENTATION BY MINISTER OF
FINANCE, PROBABLY IN APRIL. NEVERTHELESS THEY INDICATE
GOC'S INTENTION TO RESTRAIN GROWTH OF PUBLIC SECTOR. PRO-
JECTIONS ASSUME 5 PERCENT INCREASE IN REAL GNP AND INFLATION
RATE OF 6 PERCENT. FEDERAL EMPLOYMENT GROWTH TO BE HELD TO
0.6 PERCENT. MAIN EXPENDITURE INCREASE IS IN HEALTH AND
WELFARE PROGRAMS, BUT DEFENSE SPENDING IS ALSO UP. BUDGETS
OF ENERGY MINES AND RESOURCES AND EXPORT DEVELOPMENT CORP.
WERE CUT. GOC EXPECTS ONLY SLIGHT RISE IN FULL EMPLOYMENT
DEFICIT OF TOTAL GOVERNMENT SECTOR IN CALENDAR YEAR 1978,
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IMPLYING LITTLE NET PUBLIC SECTOR STIMULUS ON GNP GROWTH.
EMBASSY ESTIMATES FOR FEDERAL/PROVINCIAL/LOCAL SPENDING
AND RECEIPTS FOR CALENDAR YEAR 1977 AND 1978 ARE SHOWN IN
PARA 6. END SUMMARY.

2. GOC TREASURY BOARD HAS PRESENTED ESTIMATES OF FEDERAL
SPENDING (BUDGETARY AND NON-BUDGETARY) FOR FISCAL YEAR

1978/79 (ENDING MARCH 31, 1979). TOTAL SPENDING IS FORECAST TO RISE BY 9.8 PERCENT TO CDOLS 48.8 BILLION IN NOMINAL TERMS AND BY 3.5 PERCENT IN REAL TERMS COMPARED WITH EXPENDITURE TOTALS IN PROJECTIONS FOR FY 1977/78. FORECASTS DO NOT INCLUDE POSSIBLE CDOLS 2 BILLION EXPENDITURE FOR REDEMPTION OF CANADIAN SAVINGS BONDS NEXT FALL. GOC SPENDING FORECASTS ARE IN LINE WITH VIEW THAT PUBLIC SPENDING SHOULD RISE BY LESS THAN GROWTH OF POTENTIAL OUTPUT. OFFICIAL STUDY OF MEDIUM TERM PROSPECTS PREPARED FOR FEDERAL/PROVINCIAL ECONOMIC SUMMIT CALLED FOR 3.6 PERCENT AVERAGE NOMINAL RISE OF REAL PUBLIC SPENDING AND FORESAW 4.4 PERCENT AVERAGE ANNUAL GROWTH OF POTENTIAL OUTPUT.

3. EXPENDITURE ESTIMATES PRELIMINARY AND SUBJECT TO REVISION IN APRIL BUDGET AND/OR LATER IN FISCAL YEAR. MOREOVER, PERCENTAGE INCREASES FOR FY 1978/79 ARE CALCULATED ON BASIS OF SPENDING PROJECTED FOR FY 1977/78 WHICH COULD WELL DIFFER FROM LEVELS ACTUALLY REALIZED. IN FEBRUARY 1977, GOC PROJECTED TOTAL EXPENDITURES OF CDOLS 44.5 BILLION, WHEREAS IN FIRST NINE MONTHS OF FISCAL YEAR NOMINAL SPENDING RAN AT ANNUAL RATE OF CDOLS 39.6 BILLION.

4. IN PREPARING SPENDING ESTIMATES GOC ASSUMED REAL GNP GROWTH OF 5 PERCENT AND INFLATION RATE OF 6 PERCENT. ESTIMATES ARE HIGHLY SENSITIVE TO PRICE ASSUMPTIONS, BUT ARE LITTLE EFFECTED BY CHANGES IN ASSUMPTIONS CONCERNING REAL LIMITED OFFICIAL USE

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GNP GROWTH. FOR EXAMPLE, ESTIMATES OF SPENDING ON UNEMPLOYMENT INSURANCE MADE BY ASSUMING SAME LEVEL OF UNEMPLOYMENT THIS YEAR AS LAST, NOT ON BASIS OF LOWER UNEMPLOYMENT DUE TO FASTER GROWTH. HOWEVER, SPENDING FOR SUPPORTING MANY PROGRAMS WOULD GO UP IF INFLATION IS GREATER THAN ESTIMATE. AS INFLATION MAY WELL BE GREATER THAN 6 PERCENT, SPENDING ESTIMATES ARE PROBABLY BIASED DOWNWARD.

5. MAIN ELEMENTS OF PROJECTED EXPENDITURES ARE:

-- SPENDING FOR 16 DEPARTMENTS AND AGENCIES WILL BE REDUCED. SPENDING CUTS CONCENTRATED, INTER ALIA, IN ENERGY MINES AND RESOURCES, EXPORT DEVELOPMENT CORP. AND CENTRAL MORTGAGE AND HOUSING CORP. (CMHC). SPENDING REQUIREMENTS OF ENERGY MINES AND RESOURCES EXPECTED TO FALL DUE TO REDUCED COMPENSATION PAYMENTS TO EASTERN CANADA FOR IMPORTED OIL AS DOMESTIC PRICE RISES TO WORLD LEVELS. EXPORT DEVELOPMENT CORP. EXPECTED TO RELY MORE HEAVILY ON BORROWING IN PRIVATE MARKET AND THUS WILL REQUIRE LESS BUDGETARY SUPPORT. HIGHER LOAN REPAYMENTS SHOULD REDUCE FINANCIAL NEEDS OF CMHC.

-- SEVEN DEPARTMENTS EXPECTED TO INCREASE SPENDING. MUCH

OF INCREASE IS IN BUDGETS OF DEPARTMENTS WITH HEALTH AND WELFARE FUNCTIONS. HEALTH AND WELFARE SPENDING ACCOUNTS FOR 46 PERCENT OF TOTAL SPENDING INCREASE. DEFENSE SPENDING ALSO TO RISE.

-- SERVICE ON PUBLIC DEBT TO RISE CDOLS 1.2 BILLION TO CDOLS 6.5 BILLION (13 PERCENT OF TOTAL EXPENDITURES).
-- GROWTH OF PUBLIC SECTOR EMPLOYMENT TO BE HELD TO 0.6 PERCENT. NUMBER OF EXECUTIVE LEVEL POSITIONS ARE FROZEN.

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-- GROWTH OF PUBLIC SECTOR EMPLOYMENT TO BE HELD TO 0.6 PERCENT. NUMBER OF EXECUTIVE LEVEL POSITIONS ARE FROZEN.

-- AUTHORIZATION LEVEL FOR CIDA TO INCREASE TO CDOLS 1.2 BILLION FROM CDOLS 1.1 BILLION IN FY 1977/78.

-- ESTIMATES PROVIDE FOR CDOLS 506 MILLION IN EMPLOYMENT CREATION EXPENDITURES, AN INCREASE OF CDOLS 148 MILLION OVER FY 1977/78 LEVEL. TOTAL DOES NOT INCLUDE CDOLS 100 MILLION EMPLOYMENT TAX CREDIT ANNOUNCED IN OCTOBER MINI BUDGET AND RECENTLY INTRODUCED INTO PARLIAMENT (SEE OTTAWA 390).

- COST OF OFFICIAL LANGUAGE PROGRAM FORECAST AT CDOLS 503.4 MILLION, UP CDOLS 180.7 MILLION FROM CURRENT FISCAL YEAR.

- SPENDING ON NATIONAL DEFENSE TO RISE FROM CDOLS 3.8

BILLION TO CDOLS 4.1 BILLION.

-- OF TOTAL EXPENDITURES, CDOLS 14.4 BILLION IS ALLOCATED
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FOR FEDERAL GOVERNMENT PURCHASES OF GOODS AND SERVICES.
MAINDER (CDOLS 34.4 BILLION) REPRESENTS TRANSFERS SUCH
AS WELFARE, UNEMPLOYMENT, INTEREST PAYMENTS AND FOREIGN AID.

6. GOVERNMENT SECTOR DEFICITS. WHILE GOC PROJECTIONS OF
TAX REVENUES, BUDGET BALANCE, AND BORROWING REQUIREMENTS
WILL NOT BE AVAILABLE UNTIL SPRING BUDGET IS PRESENTED,
FOLLOWING ESTIMATES OF BALANCES HAS BEEN CONSTRUCTED FOR
CY 1977 AND 1978 FROM SPENDING AND REVENUE ESTIMATES AS
PERCENTAGE OF GNP PROVIDED EMBASSY BY DEPT. OF FINANCE.
ESTIMATES FOR CY 1978 IMPLY NO MAJOR POLICY CHANGE AND ARE
SUBJECT TO REVISION. ESTIMATES OF NOMINAL GNP IN 1977 AND
1978 (CDOLS 201 BILLION AND CDOLS 222.6 BILLION RESPECTIVE-
LY) WHICH UNDERLY THESE PROJECTIONS ARE BASED ON EMBASSY
FORECASTS. BRACKETS INDICATE NEGATIVE NUMBERS.

----- (BILLIONS OF CDOLS)						
----- SPENDING REVENUES BALANCE						
----- 1977 1978 1977 1978 1977 1978						
FED. GOVERNMENT	42.6	47.2	35.8	38.7	(6.8)	(8.5)
OTHER GOVERNMENTS	49.0	54.3	48.6	53.9	(0.4)	(0.4)
GOVT. PENSION FUNDS			2.2	2.4		
TOTAL PUBLIC SECTOR BALANCE					(5.0)	(6.5)

6B. BUDGET BALANCES AS PERCENTAGE OF GNP.

----- 1977 1978			
FEDERAL	(3.4)	(3.8)	
OTHER GOVERNMENTS	(0.9)	(0.8)	
CANADA/QUEBEC PENSION FUNDS		1.1	1.1
TOTAL PUBLIC SECTOR	(2.5)	(2.9)	

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7. ECONOMIC IMPACT. DEPT. OF FINANCE CALCULATES THAT
TOTAL PUBLIC SECTOR REGISTERED FULL EMPLOYMENT BUDGET DEF-
ICIT OF 2 PERCENT OF GNP IN CY 1977 AND THAT DEFICIT COULD
RISE TO 2.25 - 2.5 PERCENT OF GNP IN CY 1978. CONSEQUENTLY
GOC SEES VERY MILD SWING TOWARD STIMULUS THIS YEAR. IN
CONTRAST, CONFERENCE BOARD WITH DIFFERENT ASSUMPTIONS ESTI-

MATES THAT ON FULL EMPLOYMENT BASIS, TOTAL PUBLIC SECTOR (FEDERAL/PROVINCIAL/LOCAL) RAN SURPLUS OF CDOLS 3.7 BILLION IN CY 1977 AND THAT SURPLUS WOULD RISE TO ABOUT CDOLS 4.7 BILLION THIS YEAR; A SHIFT TOWARDS GREATER SURPLUS OF ABOUT 0.5 PERCENT OF 1978 GNP. THUS, IN CONFERENCE BOARD VIEW, IMPACT OF PUBLIC SECTOR ON GNP GROWTH WOULD BE NEGATIVE IN 1978. EMBASSY ESTIMATES THAT ECONOMIC IMPACT OF TOTAL PUBLIC SECTOR WILL BE CLOSE TO NEUTRAL THIS YEAR IN COMPARISON TO LAST YEAR. OUR ESTIMATES SHOW THAT ACTUAL BUDGET DEFICIT (I.E. NOT ON FULL EMPLOYMENT BASIS) AS PERCENTAGE OF GNP WILL INCREASE FROM ABOUT 2.5 PERCENT TO 2.9 PERCENT OF GNP BETWEEN CY 1977 AND 1978. DUEMLING

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